

## **Public Service Provident Fund - 2013**

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The audit of financial statements of the Public Service Provident Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 24(1) of the Public Service Provident Fund Ordinance (Cap. 621). My comments and observations on the aforesaid financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810).

### **1.4 Basis for Disclaimer of Opinion**

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As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustment might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet, income and expenditure statement and cash flow statement.

## **2. Financial Statements**

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### **2.1 Disclaimer of Opinion**

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Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

## 2.2 **Comments on Financial Statements**

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### 2.2.1 **Accounting Deficiencies**

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- (a) Instead of showing the total contributions of Rs. 36,503,985,218 paid by all contributors and the Government share for the Provident Fund as non-current liabilities, it had been shown as the equity in the balance sheet.
- (b) An unidentified debit balance of Rs. 8,825,541 had existed in the Adjustment Account as current assets.

### 2.2.2 **Lack of Evidence for Audit**

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Transactions could not be satisfactorily observed or accepted due to non-presentation of the following audit evidence.

- (a) As no action had been taken to maintain the Individual Account on behalf of the Fund, the balance of Rs. 14,401,779,333 of the Compulsory Contribution Account at the end of the year could not be examined. In addition to this, outstanding balances receivable from contributors who pay the compulsory contribution to the Fund had not been computed. Even though contributions of Rs. 336,105,862 had been paid to the contributors in the year under review, it could not be satisfied on the accuracy of the said payments under the above situation.
- (b) As no Individual Accounts had been maintained for the contributors who pay voluntary contributions, the accuracy of the balance of Rs. 22,536,299 in the Voluntary Contribution Account paid at the end of the year could not be established.

## 2.3 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations

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Non-compliance

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(a) Public Service Provident Fund  
Ordinance (Cap. 621)

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(i) Section 2(2)

Even though individual accounts should be maintained for each contributor, individual accounts had not been maintained from the inception of the Fund.

## (ii) Section 25

Even though the Director General of Pensions should inform the contributors of the balances in the members' accounts as at 31 December at the end of each financial year, action had not been so taken.

## (iii) Section 7(1)

Even though the contribution of 8 per cent of the contributor and the Government contribution of 12 per cent should be obtained from the Deputy Secretary to the Treasury, action had been taken to obtain the both compulsory contribution and the Government contribution from the relevant institutions themselves, in terms of instructions of circular No. 4/2010 of 25 May 2010 of the Director General of Pensions.

## (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

## (i) Financial Regulation 396(d)

Even though a period of 06 months had lapsed after the issue of cheques in the year under review, no action had been taken to settle the said cheques amounting to Rs. 43,353 not submitted for payment.

## (ii) Financial Regulation 486

No action had been taken to account 10 contribution cheques to the value of Rs. 150,565 received and dishonoured during the period from 03 October 2012 to 03 September 2013.

### 3. **Financial Review**

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#### 3.1 **Financial Results**

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According to the financial statements presented, the financial results for the year under review had been a surplus of Rs.2,757,264,050 as compared with the corresponding surplus of Rs.2,560,334,257 for the preceding year, thus indicating an improvement of Rs.196,929,793 in the financial result as compared with the preceding year.

## 4. **Operating Review**

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### 4.1 **Management Inefficiencies**

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- (a) Even though an advice on the money credited to the Fund in every month should be furnished to the Secretary to the Fund before the fifteenth day of the subsequent month by respective institutions, only a few institutions had furnished those advices for every month of the year under review. No adequate steps had been taken by the management to obtain such reports.
- (b) Interest rates given to the members by the Fund in the year under review and the preceding year had fluctuated and the interest rate paid to members in the year under review as compared with the preceding year had decreased by 0.29 per cent.
- (c) No attention had been paid in deciding investments beneficial to the Fund by evaluating the expected benefits from sources of investments such as fixed deposits, treasury bonds and treasury bills approved by a Treasury Operations Circular.

### 4.2 **Deprivation of Interest Income to the Fund**

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The interest income which could be earned by investing the Government Bonus had been deprived of due to non-receipt of the said bonus recoverable to the Fund from the Secretary to the Treasury. The interest income deprived of on the normal interest rate of 11.95 per cent relating to the year under review and 07 preceding years had been Rs. 1,658,680,493.

### 4.3 **Payment of Benefits to Members**

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Out of the applications presented by the members of the Fund during the year under review for obtaining the benefits, payments on 2538 applications had not been made as at the end of the year under review.

## 5. **Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Director General of Pensions from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Abatement Registers
- (c) Individual Accounts of Members
- (d) Investments
- (e) Contributions